

Message Text

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E.O. 11652: GDS

TAGS: EFIN EINV ETRD KS

SUBJECT: OPIC AND FINANCING KOREA'S FUTURE ECONOMIC GROWTH

1. DURING HIS VISIT HERE, OPIC VP GREGG DISCUSSED HIS AGENCY'S IDEAS ABOUT PROVIDING INVESTMENT INSURANCE IN KOREA IN THE FUTURE WITH DPM NAM DUCK WOO. GREGG'S EXPOSITION INCLUDED AN EXPLANATION OF OPIC'S EXPOSURE PROBLEMS AND A DETAILED DESCRIPTION OF RISK-POOLING, E.G. OPIC WOULD INSURE DOW CHEMICAL IF DOW WOULD PICK UP AN EQUAL AMOUNT OF REINSURANCE ON OPIC'S POOLED PORTFOLIO IN THE SIX COUNTRIES OF HEAVY EXPOSURE. HE ALSO SUGGESTED KOREA CONSIDER PICKING UP SOME OF DOW'S REINSURANCE. NAM'S REACTION WAS NEGATIVE IN TERMS OF THIS APPROACH MEETING KOREA'S NEEDS. HE INDICATED THAT IN ORDER FOR KOREA TO CONTINUE ITS RAPID ECONOMIC DEVELOPMENT, A VERY SIGNIFICANT PROPORTION WOULD HAVE TO BE FINANCED WITH FOREIGN CAPITAL, A LARGE PART OF WHICH IN TURN WOULD SEEM TO HAVE TO COME FROM THE LARGEST CAPITAL MARKET, THE U.S.

2. OTHER KOREANS REGISTERED SURPRISE AND CONCERN THAT OPIC INSURANCE OPERATIONS WHICH HAD BEEN PROCEEDING SMOOTHLY FOR YEARS, ENABLING SUBSTANTIAL U.S. INVESTMENT AND MORE IMPORTANT- LY TECHNOLOGY TRANSFER INCLUDING MANAGEMENT SKILLS, HAD SUDDENLY TIGHTENED UP. THE RISK-POOLING PROPOSITION DID NOT STRIKE A RESPONSIVE CHORD.

CONFIDENTIAL

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PAGE 02 SEOUL 08542 050349Z

3. NAM'S POINT SEEMS TO US WORTH CONSIDERING CAREFULLY.

WHILE THE POOLING PROPOSAL MIGHT MAKE EMINENT SHORT-RUN SENSE, GIVEN OPIC'S NEED TO COMPLY WITH CONGRESSIONAL DIRECTIVES, WE CANNOT SEE POOLING AS A SOLUTION TO KOREA'S LONG-RUN PROBLEM. AS THE WORLD BANK CONCLUDED AT THE PARIS CONSORTIUM GROUP MEETING THIS JULY, KOREA WILL NEED AN AVERAGE OF \$2 BILLION A YEAR IN EXTERNAL FINANCING OVER THE NEXT FIVE YEARS IF IT IS TO MEET THE GROWTH TARGETS WHICH THE KOREANS HAVE SET AND THE DONORS THINK FEASIBLE. WE BELIEVE OPIC WILL NEED TO INSURE A LARGE PART OF THAT SUM IF IT IS TO COME FROM PRIVATE U.S. SOURCES.

4. OPIC DATA FOR 8/31/75 SHOW:

	KOREA'S CURRENT EXPOSURE	PERCENT OF WORLD- WIDE TOTAL
INCONVERTIBILITY	\$120 MILLION	13
EXPROPRIATION	219	8
GAR	231	10

TOTL ROKG APPROVALS OF U.S. EQUITY INVESTMENT, INCLUDING THAT BY FOREIGN UNITS OF U.S. MULTINATIONALS (EXCLUDING THE PENDING DOW INVESTMENT OF \$17.5 MILLION), WAS \$246 MILLION AS OF 6/30/75. THUS, WAR AND EXPROPRIATION INSURANCE HAVE BEEN WRITTEN FOR VIRTUALLY ALL U.S. EQUITY INVESTMENT TO DATE, SHOWING HOW IMPORTANT OPIC INSURANCE HAS BEEN IN PAST YEARS TO DIRECT INVESTMENT. MOREOVER, MOST OF THIS DEMAND HAS ITS ORIGIN IN THE PERCEIVED RISKS OF WAR AND RELATED CONSEQUENCES. THUS, LITTLE U.S. EQUITY INVESTMENT SEEMS LIKELY WITHOUT INSURANCE. SUCH INSURANCE, HOWEVER, WILL NOT ONLY BE AVAILABLE ON A POOLING BASIS.

5. OUR INITIAL READING OF POOLING IS THAT MANY, IF NOT MOST, LARGE COMPANIES WILL FIND THE ADDITIONAL RISK UNCERTAIN AND DISTASTEFUL. IT IS NO LONGER A SIMPLE DECISION TO DECIDE TO INSURE SINCE EVALUATING THE RISK OF LOSS FROM THE RECIPROCAL COVERAGE CARRIED ON THE POOL IS VERY COMPLICATED AND DIFFICULT TO EXPLAIN TO STOCKHOLDERS. HENCE, WE THINK MANY POTENTIAL INVESTORS WILL BY-PASS KOREA IN VIEW OF ITS SPECIAL RISKS.

CONFIDENTIAL

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PAGE 03 SEOUL 08542 050349Z

6. GIVEN OUR OVERALL POLITICAL-MILITARY-ECONOMIC STAKE HERE, WE DO NOT THINK THAT WE CAN AFFORD NOT TO CONTINUE TO PROVIDE INSURANCE IN VERY LARGE AMOUNTS. WE BELIEVE THAT KOREA CONSTITUTES A SPECIAL CASE, SINCE ITS ECONOMIC PERFORMANCE HAS BEEN SUPERB. AFTER MANY YEARS OF U.S. HELP IT HAS GRADUATED FROM THE CLASS OF COUNTRIES REQUIRING AID LOANS. TO DENY IT OPIC INSURANCE NOW WOULD BE TO PUT IN JEOPARDY ON CURRENT INVESTMENT IN KOREA, AND PERHAPS MORE IMPORTANT FUTURE TRADE AND INVESTMENT PROSPECTS

IN AN EXPANDING MARKET, AS WELL AS RUN COUNTER TO THE LONG-TERM SECURITY OBJECTIVES OF OUR CONTINUING MILITARY ASSISTANCE.

7. WE WOULD LIKE AN EARLY REACTION FROM THE DEPARTMENT ON THESE IDEAS AS WE WOULD LIKE TO DISCUSS THEM WITH DPM NAM. WE BELIEVE THE ROKG IS OWED SOME REASSURANCE ON THIS QUESTION AS IT MUST MAKE ITS OWN PLANS. KOREANS WILL ALSO INTERPRET OUR RESPONSE AS A BELLWETHER OF THE EXTENT OF U.S. SUPPORT THEY CAN EXPECT IN THE FUTURE.

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